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UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF CALIFORNIA

UNITED STATES OF AMERICA Petitioner, v. SALLY DAWN COBB, Respondent.	Case No. 08cv997 IEG (CAB) RESPONSE IN OPPOSITION TO MOTION TO QUASH IRS SUMMONS AND ORDER TO SHOW CAUSE Date: August 18, 2008 Time: 10:30 a.m. Crtrm: 1 The Honorable Irma E. Gonzalez

I.

INTRODUCTION

Respondent Sally Dawn Cobb is seeking to quash four Internal Revenue Service ("IRS") summons issued to her and the "Order to Show Cause why the Petition to Enforce Internal Revenue Summons should not be Enforced." Order to Show Cause (Doc. 3) filed on June 6, 2008. Respondent's motion to quash should be denied because the United States has established a *prima facie* case of good faith in issuing the IRS summonses as required by United States v. Powell, 379 U.S. 48, 57-58 (1964) and Respondent has failed to show an "abuse of process" or "the lack of institutional good faith" by the IRS. Fortney v. United States, 59 F.3d 117, 119 (9th Cir. 1995) (citing United States v. Dynavac, 6 F.3d 1407 (9th Cir. 1993)).

II.

STATEMENT OF FACTS

From June 2007 to February 2008, Internal Revenue Service ("IRS") Revenue Agent Michael Delgado ("Revenue Agent Delgado") issued four IRS administrative summonses to Respondent Sally Dawn Cobb in an effort to determine Respondent's correct federal income tax liabilities for the tax years 2001, 2005, and 2006 and the income tax liability of Respondent's brother, Michael A. Scott, for tax year 2001. See Petition to Enforce (Doc. 1) filed on June 4, 2008, ¶¶ 2-3 ("Petition"). The four summonses, as outlined in the Petition, are the Scott Angels Summons, the MAKDS Summons, the Dawn/Oasis Summons, and the Cobb Tapestry/Meadows Summons. See Petition, ¶¶ 6-18; Declaration of Revenue Agent Delgado ("Delgado Decl."), Exs. A-D, copy attached to Petition. All summonses directed Respondent to appear before Revenue Agent Delgado by a certain date to provide testimony and produce for examination books, papers, records, or other data as described in the summonses or attachments to the summonses. See Petition, ¶ 4. Revenue Agent Delgado served all four summonses on the Respondent by handing her an attested copy of each summons, in accordance with 26 U.S.C. § 7603. Delgado Decl., ¶¶ 4, 8, 12. Additionally, as required by Section 7609(a) of Title 26 of the United States Code, Revenue Agent Delgado served notice of the Scott Angels Summons, MAKDS Summons, and the Dawn/Oasis Summons to the third party noticees, Michael A. Scott and Kerry D. Scott, as identified in the summonses. Delgado Decl., ¶¶ 5,9. Neither noticee filed a proceeding to quash summonses. Id.

Respondent did not appear for any of the dates set by the summonses and did not provide Revenue Agent Delgado with any of the documents or testimony required by the summonses. As discussed in the Delgado Declaration, the only contact Revenue Agent Delgado has had with Respondent regarding the summonses is a single phone call from Respondent prior to issuance of the summonses and letters sent by certified mail to Revenue Agent Delgado following the issuance of each summons. See Petition, ¶¶ 9, 17. During the phone call, Respondent informed Revenue Agent Delgado that there was no filing requirement for the trust and no taxes were required for the trust. Id. The letters sent by Respondent assert general allegations that she is not a "federal U.S. public taxpayer" subject to taxes. Id. Each letter also includes a copy of the issued summonses with a stamp mark "returned for fraud." See id. at ¶ 17; Delgado Decl., Ex. E.

To date, Respondent has not complied with the summonses and has not provided any testimony or documents requested by the four summonses. While the IRS has received some documents from third party sources in response to subpoena or summons requests, these documents are insufficient and incomplete. Accordingly, documents and oral testimony from Respondent and her brother are still required and the books, papers, records, and other data sought by the summonses are not already in the possession of the Internal Revenue Service. Therefore, on June 4, 2008, the United States filed a Petition to Enforce the IRS summonses with this Court. On June 6, 2008, the Court issued an Order to Show cause why the Petition should not be enforced. Subsequently, on June 24, 2008, Respondent filed the motion to quash presently before this Court.

III.

ARGUMENT

A. THE ORDER TO SHOW CAUSE ISSUED TO RESPONDENT WAS PROPER BECAUSE THE GOVERNMENT MADE A PRIMA FACIE SHOWING THAT ENFORCEMENT OF THE IRS SUMMONS IS APPROPRIATE

1. The IRS has the Authority to Issue Summonses Under 26 U.S.C. § 7602

The Secretary of the Treasury and the Commissioner of Internal Revenue are charged with the responsibility of administering and enforcing the Internal Revenue Code. In order to determine the correctness of any return or to determine the liability of any person for any internal revenue tax or to collect a tax liability, the IRS, as a delegate of the Secretary of Treasury, may examine any books, papers, records, or other data which may be relevant or material to such inquiry, may issue summonses to any person in order to obtain any books, papers, records, or other data that may be relevant or material to the inquiry, and may take such testimony, under oath, as may be relevant or material to the inquiry. See 26 U.S.C. § 7602(a). Thus, the IRS has explicit statutory authority to issue summonses in connection with investigations into a taxpayer's tax liability and the IRS need not obtain prior judicial approval before issuing such a summons. See id.

2. The Summonses Satisfy the Powell Requirements

The United States maintains that the summonses are valid and seeks summary denial of respondent's motion to quash the IRS summons and Order to Show Cause issued by this Court. The standard and burden of proof in an action to quash a summons are identical to the standard and burden of proof in an action to enforce a summons. See S. Rep. No. 97-494, 97th Cong., 2d Sess. 283 (1982) ("although an action to quash the summons must be instituted by the taxpayer, the ultimate burden of persuasion with respect to its right to enforcement of the summons will remain on the Secretary, as under current law. Thus, the Secretary will have to meet all the requirements of United States v. Powell, 379 U.S. 48 (1964). . ."). When a party challenges a summons issued by the IRS or when the government asks that an IRS summons be enforced, the government must first establish a *prima facie* case of good faith as established by the United States Supreme Court in Powell. Powell, 379 U.S. 48. Once the Government has established a *prima facie* case, the burden of proof shifts to the taxpayer. As explained by the Ninth Circuit, the taxpayer bears a "heavy burden" of showing an "abuse of process" or "the lack of institutional good faith." Fortney, 59 F.3d at 119 (citing Dynavac, 6 F.3d 1407). To meet this burden, the "taxpayer must allege specific facts and evidence to support his allegations." Liberty Financial Services v. United States, 778 F.2d 1390, 1392 (9th Cir. 1985) (citation omitted).

In this case, the United States has established a *prima facie* case of good faith. The Revenue Agent currently assigned to the case attests that the summonses meet all requirements of the law and were issued in accordance with all legal requirements. See Delgado Decl., ¶¶ 3-4, 7-9, 11-12. Respondent, on the other hand, offers only meritless, conclusory statements without alleging any specific facts or evidence to support those arguments.

In order to show that a summons is valid and proper, Powell requires the IRS to establish that the summons: (1) was issued for a legitimate purpose; (2) seeks information relevant to that purpose; (3) seeks information that is not already within the IRS's possession; and (4) satisfies all administrative steps required by the United States Code. Powell, 379 U.S. at 57-58. Courts have held that the government's burden of satisfying the Powell requirements is a "slight one" that can be met "merely by presenting the sworn affidavit of the agent who issued the summons attesting to these facts." La Mura v. United States, 765 F.2d 974, 979 (11th Cir. 1985); see also, Dynavac, 6 F.3d at 1414; United States v. Gilleran, 992 F.2d 232, 233 (9th Cir. 1993).

In the instant case, Revenue Agent Delgado's Declaration, as the agent who originally issued the summonses and is assigned to the case, establishes that the summonses in this case meet the Powell elements.

a. Legitimate Purpose

The first element of the Powell test requires the IRS to issue the summonses to serve some legitimate purpose. Here, the IRS is examining the federal income tax liabilities of Respondent for the periods 2001, 2005, and 2006 to determine her correct federal tax liabilities for those years. Delgado Decl., ¶ 2. The IRS is also examining the federal income tax liability of Respondent's brother, Michael A. Scott, for the tax year 2001 to determine his correct federal tax liabilities. Id. This purpose is authorized by Sections 7602(a) and 7602(b) of the Internal Revenue Code. Additionally, the IRS has not made a criminal referral to the Justice Department with respect to Respondent or her brother for those periods. Id. at ¶ 18. Thus, the summonses were issued for a legitimate purpose.

b. Relevance

The second element of the Powell test requires that the IRS summonses seek information that is relevant to the purpose of the investigation. The Supreme Court has said that the relevancy requirement is met when the information "might have thrown light upon the correctness of the return." United States v. Arthur Young & Co., 465 U.S. 805, 814 n.11 (1984). The Ninth Circuit has further explained this test as a "realistic expectation rather than an idle hope that something may be discovered." Tedder v. United States, 77 F.3d 1166, 1168-69 (9th Cir. 1996) (quoting United States v. Harrington, 388 F.3d 520, 524 (2d Cir. 1968)).

In this case, the information sought by the summonses meets the relevancy test. To help determine Respondent's correct tax liability, the summonses seek, among other things, information and documents concerning assets, grantors, beneficiaries, and financial transactions of the Respondent and entities of which Respondent and her brother are trustees. See Delgado Decl., Ex. A-D. The IRS can use these documents to determine the correct amount of Respondent's and her brother's income and federal tax liabilities for the tax periods 2001, 2005, and 2006. Delgado Decl., ¶ 26. Thus, the IRS has a realistic expectation that the documents summoned might throw light upon the correctness of the Respondent's and her brother's tax liabilities.

c. Not already in the Possession of the IRS

The third element of the Powell test requires that the IRS not summon documents that it already possesses. The Powell requirement that the IRS not already have within its possession the summoned documents originates from 26 U.S.C. § 7605(b), which forbids "unnecessary" summonses. United States v. Davies, 636 F.2d 1028, 1037 (5th Cir. 1981). As such, the requirement is not "an absolute prohibition against the enforcement of any summons to the extent that it requests the production of information already in the possession of the IRS." Id.

Revenue Agent Delgado declares that some of the information requested by the summonses has been received from third parties sources but this information is insufficient and incomplete and therefore the IRS does not yet have the information and documents requested by the summonses. Delgado Decl., ¶ 15.

d. Administrative Steps Satisfied

Finally, the fourth element of the Powell test requires that the summonses meet the administrative steps required by the Internal Revenue Code. Here, the summonses meet this final element. Revenue Agent Delgado served all four summonses on the Respondent by handing her an attested copy of each summons, in accordance with 26 U.S. C. § 7603, and he mailed timely copies of the relevant summonses to the third party noticees as required by § 7609(a). Id., ¶¶ 4, 5, 8, 9, 12. Revenue Agent Delgado declares that all administrative steps have been followed. Id., ¶ 16. Thus, this final element of the Powell test has been satisfied and the United States has established a *prima facie* case of good faith in issuing the IRS summonses.

B. RESPONDENT HAS FAILED TO SET FORTH ANY ALLEGATIONS WHICH WOULD CONSTITUTE A LEGALLY SUFFICIENT CHALLENGE OR DEFENSE TO THE ENFORCEMENT OF THE IRS SUMMONS AND ORDER TO SHOW CAUSE

Once a *prima facie* case has been made, "a heavy burden falls on the taxpayer" to show an abuse of the court's process or lack of institutional good faith. Dynavac, 6 F.3d at 1414. The taxpayer "must allege specific facts and evidence to support his allegations." Liberty Financial Services, 778 F.2d at 1392. Here, Respondent has failed to allege any facts or evidence that the issued IRS summonses were issued in bad faith.

Respondent makes several arguments as to why the summonses are not valid, none of which are availing, and the Court should reject them all. First, Respondent alleges that she is not a "person" liable for United States income tax. See Motion to Quash, pp. 2-3. Arguments that an individual is not a "person" within the meaning of the IRC, that individuals are not citizens of the United States, but solely citizens of a sovereign state, or that the federal income tax is an excise tax have been uniformly dismissed. See United States v. Hanson, 2 F.3d 942, 945 (9th Cir. 1993); United States v. Steiner, 963 F.2d 381 (9th Cir. 1992); United States v. Karlin, 785 F.2d 90, 91 (3d Cir. 1986), cert. denied 480 U.S. 907 (1987); United States v. Buras, 633 F.2d 1356, 1361 (9th Cir. 1980).

In Lonsdale v. United States, 919 F.2d 1440, 1448 (10th Cir. 1990), the Tenth Circuit provided a "laundry list" of arguments[1/] that are completely lacking in legal merit and patently frivolous.

[1/] The list includes the following:

(1) individuals ("free born, white, preamble, sovereign, natural, individual common law 'de jure' citizens of a state, etc.") are not "persons" subject to taxation under the Internal Revenue code;
(2) the authority of the United States is confined to the District of Columbia;
(3) the income tax is a direct tax which is invalid absent apportionment, and Pollack v. Farmers' Loan & Trust Co., (citation omitted) is authority for that and other arguments against the government's power to impose income taxes on individuals;
(4) the Sixteenth Amendment to the Constitution is either invalid or applies only to corporations;
(5) wages are not income;
(6) the income tax is voluntary;
(7) no statutory authority exists for imposing an income tax on individuals;
(8) the term "income" as used in the tax statutes is unconstitutionally vague and indefinite;
(9) individuals are not required to file tax returns fully reporting their income;
(10) the Anti-Injunction Act is invalid;
(11) the Commissioner of Internal Revenue and employees of the Internal Revenue Service have no power or authority to administer the Internal Revenue laws, including power to issue summons, liens and levies, because of invalid or nonexistent delegations of authority, lack of publication of delegations of authority in the Federal Register, violations of the Paperwork Reduction Act,

(continued...)

Respondent presents no new arguments to this Court which have not already been rejected by other courts. Further, as the court in Wells v. United States stated, "[n]o federal court, trial or appellate, is obligated to allot more than a modicum of scarce judicial resources to such claims." No. 86-C-316-B, 1986 WL 15578, at *1 (N.D. Okla. July 1, 1986) (citing Windsor v. Pan American Airways, 744 F.2d 1187, 1188 (5th Cir. 1984)). Accordingly, Respondent's contentions lack merit and should be promptly dismissed.

Similarly, Respondent's argument that the "pure trust" organization has no IRS filing obligations and therefore Respondent is not required to provide documents or testimony in response to the IRS summonses lacks merit. Motion, p. 3. Courts have repeatedly rejected claims that a "pure trust" organization or similar "untaxing" packages eliminates any filing requirements. In fact, many promoters and participants in these schemes have been subject to civil and criminal penalties. See, e.g., United States v. Binge, et. al., No. 5:04-CV-01419-JRA, 2004 WL 2600770, at *4-5 (N.D. Ohio Sept. 27, 2004) (enjoining two individuals from promoting abuse tax shelters that encouraged others to form various trusts without a legitimate legal basis in order to avoid federal taxes and holding that the individuals' actions constituted an abusive tax scheme); United States v. Andra, 218 F.3d 1106 (9th Cir. 2000) (holding that it was proper to include tax liabilities of persons recruited by a promoter of an untaxing scheme when calculating the effect of his actions for sentencing); United States v. Krall, 835 F.2d 711 (8th Cir. 1987) (holding that trusts created by the defendant were shams because he exercised the same dominion and control over the corpus and income of the trusts as he did before the trusts were created); United States v. Scott, 37 F.3d 1564 (10th Cir. 1994) (finding that defendant was subject to tax on all the income of various trusts marketed to purchasers as a device to eliminate tax liability without losing control over their assets or income). Notably, in United States v. Meredith, No. 2:02cr00372-DDP (C.D. Ca. June 6, 2005), a federal district court sentenced individuals to prison terms ranging from 20 months to 121 months based on evidence that the group conducted seminars falsely instructing attendees, among other things, that they could shield income and assets from federal income

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[1](...continued)
and violations of the Administrative Procedure Act, including the Freedom of Information Act; and

(12) tax forms, including 1040, 1040A, 1040EZ and other reporting forms, are invalid because they have not been published in the Federal Register. *Id.* at 1448.

taxation by using "pure trusts." See Ex. A.[2/] Accordingly, Respondent's claims that the trust organization has no filing requirement should be dismissed as frivolous.

Finally, to the extent this Court may construe the instant motion as a petition to quash an IRS summons under § 7609, the motion should be denied because § 7609 does not apply to the instant case. Sections 7602 through 7609 of the Internal Revenue Code govern the procedure applicable to issuance, compliance, enforcement, and challenges of summonses. Section 7602 is a broad grant of authority that applies to all summonses issued as part of an investigation of tax liability. See United States v. Euge, 444 U.S. 707, 714 (1980); United States v. Arthur Young & Co., 465 U.S. 805, 816 (1984). Section 7609 is a detailed description of the procedures which apply to, and rights created by, issuance of a special category of summonses – third-party summonses. One entitled to receive notice of a third-party summons may bring a proceeding to quash the summons. 26 U.S.C. § 7609(b)(2).

The "proceeding to quash" procedure, first enacted in 1982 as part of the Tax Equity and Fiscal Responsibility Act (TEFRA), was intended to provide some assurance that taxpayer interference with legitimate law enforcement efforts would be based on proper grounds and not merely interposed on frivolous grounds resulting in fruitless delays, as had frequently been the case before the passage of TEFRA. See S. Rep. No. 97-494, vol. 1, at 282, reprinted in 1982 U.S.C.C.A.N. 781, 1027; Godwin v. United States, 564 F. Supp. 1209, 1211-1212 (D. Del. 1983). Section 7609(c) defines the types of summonses that can be challenged under 7609(b)(2) and expressly excepts certain summonses. Section 7609(b)(2) does not apply to any summons "served on the person with respect to whose liability the summons is issued. . . ." § 7609(c)(2)(A). In the instant case, all four summonses were issued to and served on Respondent. Therefore, Respondent is not entitled to bring a proceeding to quash the summonses. Id. It should be noted that the Scott Angels Summons, MAKDS Summons, and the Dawn/Oasis Summons each required notice to a third party and Agent Delgado properly served such notice on the relevant third parties. Accordingly, the third party noticees for the three summonses may have been entitled under § 7609 to bring a proceeding to quash the summonses but the noticees did not

[2/] Respondent relies on two letters allegedly sent from the IRS to a CPA on December 17, 1996 and November 14, 1997. The letters are addressed to Gregory P. Karl and William Watts. Both individuals were co-defendants in United States v. Meredith, and convicted of conspiracy. See Ex. A. Further, both defendants were participants in the tax scheme promoted by Meredith that encouraged individuals to stop paying income taxes and to refuse to produce books and records to the IRS.

seek a proceeding to quash the issued summonses. See Delgado Decl., at ¶¶ 8, 12.

Even assuming § 7609 did apply to the instant case, this Court lacks jurisdiction to quash the IRS Summonses. Section 7609(b)(2) constitutes a waiver of sovereign immunity. See Stringer v. United States, 776 F. 2d 274, 275 (11th Cir. 1985). Like all such waivers, the § 7609 waiver must be strictly construed. See Lehman v. Nakshian, 453 U.S. 156, 160 (1981); Soriano v. United States, 352 U.S. 270 (1957). "Men must turn square corners when they deal with the Government. If it attaches even purely formal conditions to its consent to be sued those conditions must be complied with." Rock Island A. & L.R. Co. v. United States, 254 U.S. 141, 143 (1920). These statutes are jurisdictional and limit the power of the federal courts to adjudicate claims against the United States. F.D.I.C. v. Meyer, 510 U.S. 471, 475 (1994) ("Sovereign immunity is jurisdictional in nature.").

One of the conditions of the United States' waiver of sovereign immunity is that a petition to quash must be commenced within 20 days of the date notice of the summons is given. 26 U.S.C. § 7609(b)(2)(A). Where, as here, the action was not commenced against the United States as prescribed by statute, the Court must deny the petition. Berman v. United States, 264 F.3d 16, 19 (1st Cir. 2001) (motion to quash must be filed within 20 days of mailing notice); accord Faber v. United States, 921 F.2d 1118, 1119 (10th Cir. 1990); Stringer, 776 F.2d at 275; Ponsford v. United States, 771 F.2d 1305, 1309 (9th Cir. 1985). Section 7609(b)(2)(A) provides, in part, "any person who is entitled to notice of a summons under subsection (a) shall have the right to begin a proceeding to quash such summons not later than the 20th day after the day such notice is given in the manner provided in subsection (a)(2)." Subsection (a)(2) of § 7609 provides, "notice shall be sufficient if . . . such notice . . . is mailed by certified or registered mail to the last known address of such person. . . ." Thus, the date that notice of the summons was mailed begins the running of the 20-day period. Shipley v.United States, No. MISC S94-0199EJG JFM, 1994 WL 731541, at * 1 (E.D. Cal. September 27, 1994); Brohman v. Mason, 587 F. Supp. 62 (W.D.N.Y. 1984); Riggs v. United States, 575 F.Supp. 738 (N.D. Ill. 1983); Grisham v. United States, 578 F. Supp. 73 (S.D.N.Y. 1983); Bilodeau v. United States, 577 F. Supp. 234 (N.H. 1983).

Here, the certificates of service and of notice on the summonses demonstrates that proper notice was given on June 8, 2007 for the Scott Angels and MAKDS summonses and on August 21, 2007 for the Dawn/Oasis Summons, in the manner as required by 26 U.S.C. § 7609(a). This motion to quash was filed on June 24, 2008, more than 20 days after notice was given. Moreover, Petitioner failed to comply with the requirement of § 7609(b)(2)(B) to send a copy of the petition by registered or certified mail to both the summoned person and the issuing agent within 20 days after the IRS gave notice. Dorsey v. United States, 618 F. Supp. 471 (D. Md. 1985); Yocum v. United States, 586 F. Supp. 317 (N.D. Ind. 1984) (failure to give notice to Internal Revenue Service); Fogelson v. United States, 579 F. Supp. 573 (D. Kan. 1983) (oral notice to summoned party inadequate); McTaggart v. United States, 570 F. Supp. 547, 551 (E.D. Mich. 1983) (failure to give notice to summoned party). Since the United States has not consented to be sued except as to suits filed "not later than the 20th day after such notice is given," sovereign immunity has not been waived and the Court lacks jurisdiction to quash the issued summonses. 26 U.S.C. § 7609(b)(2)(A).

Because § 7609 is not applicable here and Respondent has not alleged any specific facts or provided any evidence that demonstrates the IRS summonses were issued in bad faith, Respondent has failed to meet the burden of proof of showing an "abuse of process" or "the lack of institutional good faith." Fortney, 59 F.3d at 119, citing Dynavac, 6 F.3d 1407; Liberty Financial Services, 778 F.2d at 1393. Accordingly, Respondent's motion to quash should be denied.

IV.

CONCLUSION

For the foregoing reasons, Petitioner respectfully ask the Court to deny the Motion to Quash.

Dated: August 1, 2008

Respectfully submitted,

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United States Attorney

s/ Raven M. Norris
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EXHIBIT A

U.S. Department of Justice

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PRESS RELEASE

FOR IMMEDIATE RELEASE
June 7, 2005

For Information, Contact Public Affairs
Thom Mrozek (213) 894-6947

SEVERAL TAX FRAUD PROMOTERS SENTENCED TO PRISON FOR FALSELY PROMISING TO PROTECT INCOME FROM TAXES

Los Angeles, CA - Five individuals associated with a tax fraud group known as "We the People" have been sentenced to federal prison for promoting bogus tax shelters that falsely promised to limit exposure to federal income taxes.

The leader of the operation, Lynne Meredith, 55, of Sunset Beach, was sentenced yesterday to 121 months in prison. A federal jury last year convicted Meredith of conspiracy, four counts of mail fraud, two counts of using a false social security number, making a false statement in a passport application and five counts of failing to file a tax return.

Meredith and her co-defendants were sentenced Monday afternoon in Los Angeles by United States District Judge Dean D. Pregerson. In sentencing Meredith, Judge Pregerson said her ideas on United States tax laws were "delusional." He went on to say that the defendants were motivated by greed, and that the stiff sentences in the case were warranted by the serious harm the defendants caused to their customers and to government institutions. Judge Pregerson also noted the importance of deterring other tax protest organizations that mislead taxpayers into violating tax laws.

The evidence presented during a 13-week trial showed that beginning in 1991 and continuing until April 2002, Meredith conducted seminars at which she sold books and bogus "pure trusts" to people with the purpose of leading them to believe they could legally shield income and assets from taxation. Meredith and her co-defendants encouraged and assisted taxpayers by forming phony "pure trusts," opening bank accounts with phony Taxpayer Identification Numbers, filing fraudulent income tax returns and encouraging taxpayers to stop filing income tax returns.

We the People sold the "pure trusts" for approximately $500 to $1,000 at seminars that were held throughout the United States and internationally. To entice potential "trust" purchasers at seminars, Meredith said that each "trust" was customized for the particular customer, who would retain complete control over their businesses and assets placed in trust without incurring any tax liability.

Meredith also encouraged taxpayers to file frivolous tax returns that falsely reported that taxpayers did not have any taxable income and fraudulently requested a refund of all income taxes paid. The defendants also encouraged taxpayers to send protest correspondence to the IRS for the purpose of impeding and obstructing the IRS from collecting taxes owed by them.

Meredith wrote books, including How To Cook A Vulture and Vultures In Eagle's Clothing, in which she falsely claimed that individuals could lawfully stop paying income taxes, stop their employers from withholding income taxes, and refuse to produce books and records to the IRS. The books contained examples of frivolous tax returns and protest letters. After the indictment, Meredith was featured as a leader of the tax protest movement in segments 20/20 and the NBC Nightly News, as well as in articles in People Magazine and the Los Angeles Times.

The defendants falsely told their customers that paying taxes is "voluntary," and that they could file a W-4 or W-8 form with their employer claiming to be exempt from federal income tax withholdings. In fact, under federal law, anyone who earns income more than approximately $8,000 must file a tax return and pay taxes. Those customers who purchased and used the "pure trusts" to hide income face serious financial penalties and interest for the income taxes they failed to pay.

From 1991 until 2002, Meredith caused thousands of taxpayers to file fraudulent income tax returns with the IRS. Those fraudulent tax returns sought refunds for as much as $32,822.

The jury heard evidence that Meredith and her co-conspirators earned more than $8.5 million as a result of the scheme. Meredith did not file federal income tax returns during these years, and she did not pay any federal income taxes. Furthermore, none of the other defendants in the case filed or paid any income taxes on income they earned from the scheme.

The other defendants in the case are:

- Gayle Bybee, 57, of Sunset Beach, who received a prison sentence of 60 months. Bybee was convicted of conspiracy and three counts of failing to file a tax return.
- Gregory Paul Karl, 55, of Solana Beach, who was sentenced to 20 months in prison. Karl, a former CPA, was convicted of conspiracy and four counts of mail fraud.
- Teresa Manharth Giordano, 42, of Murrieta, who was sentenced to 40 months in prison. Giordano was convicted of conspiracy, four counts of mail fraud and two counts of failing to file a tax return.
- Willie Watts, 46, of Murrieta, who was sentenced to 36 months in prison. Watts, a former CPA, was convicted of conspiracy, three counts of mail fraud and three counts of failing to file a tax return.

Two more defendants in the case – Nora Moore, 56, of Huntington Beach, and Betty Erickson, 60, of Windsor – are scheduled to be sentenced by Judge Pregerson on June 20. Both Moore and Erickson were convicted of three counts of failing to file a tax return.

The prosecution of this case reflects the increased focus the IRS has on the anti-tax movement. Although courts have continuously rejected frivolous arguments such as those presented by Meredith, the use of false, misleading and unorthodox tax advice has gained followers.

The case against Meredith and the other promoters of We the People was the result of an investigation by IRS-Criminal Investigation Division.

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Release No. 05-086

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UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF CALIFORNIA

UNITED STATES OF AMERICA, Petitioner, v. SALLY DAWN COBB, Respondent.	)	Civil No. 08cv0997 IEG (CAB) CERTIFICATE OF SERVICE

IT IS HEREBY CERTIFIED THAT:

I, Raven M. Norris, am a citizen of the United States and am at least eighteen years of age. My business address is 880 Front Street, Room 6293, San Diego, California 92101-8893.

I am not a party to the above-entitled action. I have caused service of the Government's Opposition to Motion to Quashon the following parties by electronically filing the foregoing with the Clerk of the District Court using its ECF System, which electronically notifies them.

None

I hereby certify that I have caused to be mailed the foregoing, by the United States Postal Service, to the following non-ECF participants on this case:

Sally Dawn Cobb
30673 Andreen Road
Valley Center, CA 92082

the last known address, at which place there is delivery service of mail from the United States Postal Service.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on August 1, 2008

s/ Raven M. Norris
RAVEN M. NORRIS